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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

International Narcotics Series No. 7

Overseas Chinese Involvement in the Narcotics Traffic

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1972

INTELLIGENCE MEMORANDUM

OVERSEAS CHINESE INVOLVEMENT IN THE NARCOTICS TRAFFIC

Conclusions

1. Narcotics investigations over the past two years reveal that ethnic Chinese businessmen control virtually the entire opium and heroin traffic in Southeast Asia. The quantity that moved out of producing areas in Southeast Asia into local and international channels exceeds by several times the opium equivalent of heroin believed to be smuggled into North America from all sources. At present, most opium traded in Southeast Asia stays within the region, where it is consumed mainly by Chinese opium-smoking communities. A lesser amount is accounted for by US servicemen stationed in the Far East, who consume it in the form of pure heroin, which they sniff or smoke.

2. The Chinese narcotics consortiums in Southeast Asia, their interest whetted by the unexpected profitability of the GI market for heroin in Vietnam, would like to penetrate the North American market on a large scale. However, they are having difficulty getting together with large-scale American syndicate buyers in the United States, and as a result the prospect of Southeast Asia flooding the United States with cheap heroin appears to be more a long-term than an immediate threat.

3. The Chinese businessmen who control opium supplies in Bangkok, Vientiane, and Hong Kong are wealthy and, for the most part, respected members of their communities. They avoid taking risks, do not themselves handle the contraband, and avoid dealing directly with persons not of Chinese descent. Go-betweens trusted by both buyer and seller will be hard

Note: This memorandum was prepared by the DDI Special Research Staff chiefly from information contained in the investigative files of the Bureau of Narcotics and Dangerous Drugs. The memorandum has been coordinated within the Central Intelligence Agency and with the Bureau of Narcotics and Dangerous Drugs.

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to find, although there are a few Overseas Chinese traffickers identified outside Southeast Asia who probably would be willing to serve in that role. There is, however, no identified "Chinese" organization in North America that has the capability of organizing and receiving a steady, large flow of heroin from Southeast Asia.

4. At present heroin moves from Southeast Asia to the United States in small quantities through a variety of loosely organized systems, including use of the Army Post Office and international mail by ex-GIs operating in Bangkok. Asian heroin in small quantities also is moving via Europe and Latin America. The total heroin smuggled from Asia to the United States in 1970 may have been as much as 500 kilograms, less than 10% of estimated US consumption.

5. The potential for development of a large US market for Asian heroin is definitely present. The Chinese who control the opium trade in the Far East are interested in tapping the profitable US market, and have demonstrated, in the case of Vietnam, that they can produce and supply large quantities of pure grade heroin on short notice. Thus, if European sources of supply diminish or appear to be seriously threatened, American buyers may look to Southeast Asia for heroin.

Discussion

The Historical Setting

6. Opium has been a widely used and traded commodity in Southeast Asia for more than 300 years. It was first introduced to China on a large scale in the 17th century when Dutch and English trading companies brought opium produced in India to China. Portuguese traders introduced the opium poppy into what is now the Shan State area of northeastern Burma. From there it spread into southern China's Yunnan Province and adjacent areas of Thailand and Laos (see the map).

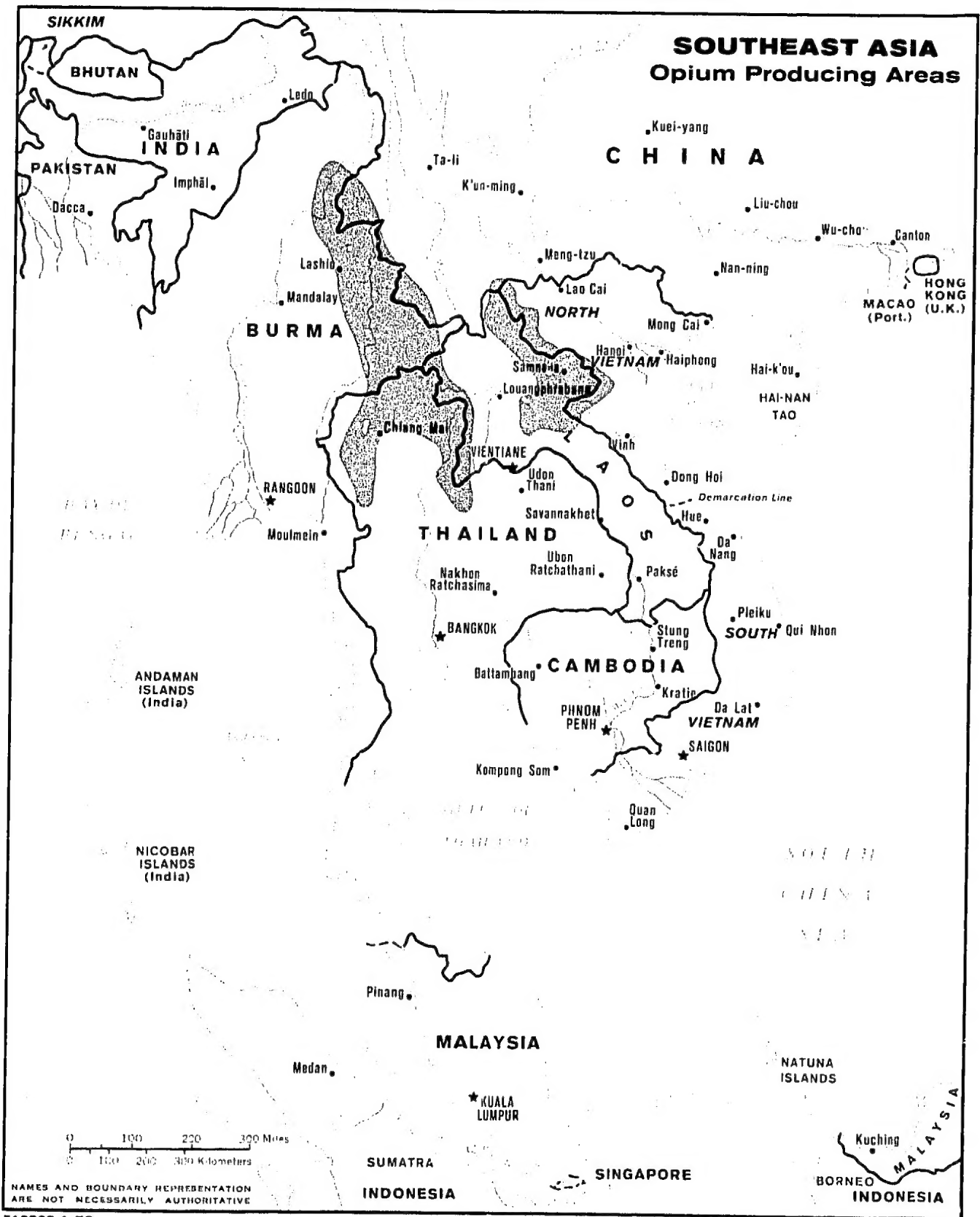
7. When Chinese from Southeast China began migrating in large numbers to Southeast Asia in the 18th and 19th centuries, they took their opium habit with them. Trade in opium was legal in Thailand, Malaya, Singapore, and Indochina. The opium was retailed through licensed opium monopolies, which were often major sources of revenue for host governments. Trade in opium and its local distribution traditionally has been handled exclusively by Chinese merchants.

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8. Until recent years virtually all opium produced and traded in Southeast Asia was distributed within the area to Chinese opium-smoking populations. In the 1950s and 1960s, refineries in Macao and Hong Kong produced small quantities of pure heroin for international markets. In 1969, production of pure heroin in Southeast Asia was greatly expanded to supply US troops in Vietnam and to meet the needs of a growing number of international traffickers who wanted to smuggle cheap Southeast Asian heroin to the United States.

The Role of Overseas Chinese

9. Trade in opium and opium products in Southeast Asia is a big business, one which ethnic Chinese could be expected to dominate for a number of reasons. Traditionally, opium has been the only narcotic drug traded on a large scale in Southeast Asia, and Chinese communities in urban centers have been the only important consumers of opium. As the merchants of Southeast Asia, the Chinese have considerable skill and experience in moving contraband, such as gold bullion, across international borders. Chinese merchants in the port cities of Southeast Asia have several advantages over their native counterparts in business. As a class, the Chinese are more industrious and more singleminded in their pursuit of wealth. Most important of all, the common ethnic background of Chinese merchants facilitates international business activities among themselves.

10. Chinese have been key figures in nearly every trafficking system recently identified in Southeast Asia. Chinese specialize in controlling the wholesale end of the business. Operating behind the scenes as much as possible, they manage and finance the bulk of the narcotics trade in that part of the world. They consider themselves businessmen first and criminals second, if at all, and generally limit their activities to those that offer large profits for little risk.

11. Ethnic Chinese are involved in other aspects of the Southeast Asian opium business besides wholesaling. Chinese do not grow opium, but they help collect it from the hill tribes who do grow it; Chinese own the refineries that convert opium to heroin; and, to a limited degree, Chinese are engaged in smuggling and distributing opium products from wholesale points to consuming centers.

12. Non-Chinese people also play an important role in the Asian drug traffic. They provide crucial services for which they are highly paid. Thus, for example, government officials who provide police, military, and political protection are usually non-Chinese. Non-Chinese also serve as couriers and provide transportation services.

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Structure of the Opium Industry

13. Approximately 700 metric tons of raw opium are grown annually in the Golden Triangle, as the opium growing region of Southeast Asia is commonly known. The bulk of this is consumed in the growing areas and in the lowlands of Burma and does not enter international trade. The 300 tons or so collected and processed for distribution outside the Golden Triangle move to wholesale centers in Vientiane, Bangkok, and Hong Kong. By comparison, illicit opium production in the rest of the world is about 700 tons a year. The amount entering the United States from all sources, mostly in the form of heroin, is not known but has been variously estimated at 50 to 100 tons of opium equivalent annually.

14. After the opium poppy is harvested in the Golden Triangle, in January to March each year, it is purchased from growers by agents of the many armed groups operating independently of government control in those remote mountainous areas.⁽¹⁾ Where conditions are relatively secure, raw opium is purchased and collected by itinerant Chinese merchants. In normal years, about half the 300 tons of opium brought out of the Golden Triangle annually originates in Burma. It is usually moved to collection points on the Burmese-Thai border by a motley assortment of armed smuggling groups. These groups include Communist and non-Communist insurgents, a variety of local "self-defense forces" established originally by the Burmese government as a sort of militia and known as Kha Kwe Yei (KKY) forces, and large well-organized Chinese irregular forces (CIF) who for some years have been entrenched in northern Thailand. The CIFs, originally driven out of southwest China by the Communists in 1949, remained in Burma for a number of years until the Burmese put pressure on them to leave in the early 1960s. Although the CIFs are now based in Thailand, once or twice a year they dispatch large armed caravans of pack horses deep into Burma on opium collecting trips.

15. Nearly all the opium brought to collection centers is brought by a few of the larger KKY organizations plus the CIF caravans. Most KKY leaders are ethnic Chinese; some are former Kuomintang (KMT) - Chinese Nationalist Party - officers. Three of the most important are Lo Hsing-han (Kokang KKY), Hsu Chia-chu (Kengtung KKY) and Yang Shih-li (northern Kengtung KKY). They have close relations with the organizations in Laos and Thailand who buy their products. All three have operated heroin

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refineries in the Tachilek area near the tri-border point.

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Yang Shih-li works with Hu T'ien-hsing, head of a large Laotian consortium that owns the Houei Tap heroin refinery, probably the largest in the Golden Triangle until it shut down in August 1971. It probably closed because Hu T'ien-hsing's consortium had accumulated large stocks of heroin at a time when the future of the US serviceman market in Vietnam had become uncertain.

16. To some extent, the opium market in northern Thailand and Laos is an open market. Small independent dealers make their way to the tri-border area in considerable numbers to buy opium products and smuggle them down to Bangkok or Vientiane. The large, established organizations, however, have major marketing advantages over small operators, and it is believed that in fact the bulk of movement is controlled and handled in Thailand by the two CIB forces (the 3rd and the 5th armies) and in Laos by Hu T'ien-hsing's consortium.

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18. During the summer of 1971 the United States stepped up pressure on Laos and Thailand to cooperate in narcotics control efforts, and the opium industry has subsequently been in a state of flux. Aggressive enforcement efforts in Thailand, Vietnam, and Laos, combined with the prospect of a decrease in the market for pure heroin in Vietnam, have caused a number of big operators to curtail their activities. Most heroin refineries have shut down in the Golden Triangle, although large stockpiles of heroin are believed to exist, particularly in Vientiane, headquarters of the Laotian consortium.

19. In late 1971, large stocks of opium, totaling many tens of tons, reportedly existed at various collection points in northern Thailand and

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Burma. Various KKY and CIF groups holding these "end-of-season" stocks would like to sell them to get funds to purchase next season's crop.

20. To summarize, most of the opium and opium products that reach collection centers in northern Thailand and Laos come under the control of a few Chinese generals and merchants. These men, whose names and involvement in narcotics traffic are well known in the area, are important men in their bailiwicks, are at ease in high financial circles in Bangkok, and are used to dealing with top government officials to get cooperation and protection. The role of these men is to ensure a steady, reliable flow of opium and opium products to buyers from consuming markets.

Opium Products Moving in Southeast Asian Traffic

21. A number of specific types of opium products move in the Southeast Asian trade:

Raw Opium. Morphine content: 5% to 10%. It is packed in bags or bales. Raw opium does not keep as well as processed opium, has a strong odor, and weighs more than processed opium. Despite these drawbacks it continues to move to markets in substantial quantities, presumably because many traditional customers want the product in this form. About half the opium shipped to Hong Kong goes as raw opium (about 60 tons annually), and most seizures of opium products reported in Singapore are of raw opium.

Processed, Cooked, or Prepared Opium. These terms refer to the same thing. It is merely raw opium with the moisture cooked out. Morphine content: about 17%. Prepared opium is pressed into brick form for easy handling. Opium smuggled to Vietnam for smoking by the Chinese community is prepared opium (an estimated 30 tons of raw opium equivalent annually).

Morphine Base. Morphine content: usually 50% in the Asian variety. It is made into a molded brick with an impressed label '999.' Morphine base is not itself consumed, but is used as a raw material for making heroin. Countries such as Vietnam without heroin refineries have no market for morphine base, except as a transit item.

#3 Heroin. Also called Red Rock, purple heroin, or smoking heroin. Morphine content: 15% (large amounts of caffeine and barbitone have been added to facilitate its consumption by smoking). Red Rock is consumed only by those who smoke opium -- that is, chiefly Overseas Chinese communities. It is cheaper per dose and more addictive and destructive

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than opium, and is widely used in Bangkok and in Hong Kong. Attempts to push it in Vietnam have been unsuccessful.

#4 Heroin or Pure Heroin. Morphine content: 90% to 96%. In the Southeast Asian trade #4 heroin is packed in plastic bags weighing 350 or 700 grams. This is a comparatively new product in Southeast Asia. Small heroin refineries have existed in Hong Kong for some time, but the product was totally unknown in Laos and Thailand until the opportunity arose to develop a market among US servicemen in Vietnam. In Vietnam, where it has been cheap and plentiful, American servicemen sniff heroin or put a few grains in the end of a cigarette and smoke it. In the United States itself pure heroin is not sold retail. It is diluted by wholesalers to about 5% morphine content for injection. Most of the world production of pure #4 heroin is consumed by Americans, either at home or abroad. Most pure #4 heroin produced and traded in Southeast Asia is intended for American consumers.⁽²⁾

Sources of Supply of Narcotics

22. The international buyer who wants to purchase bulk quantities of heroin or other opium products in the Far East must go to the wholesale markets in Vientiane, Bangkok, or Hong Kong. The men so far identified as controlling, financing, and managing these markets are without exception ethnic Chinese. The top opium traders identified in the three cities are very well known men in their communities.

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Bangkok

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25. During 1970 and 1971 dozens of people who could be considered middle-level managers were identified in the Bangkok narcotics business in the course of police investigations. Except for one or two, these people are Thai citizens of Chinese origin. Most are believed to be of Ch'ao-chou origin. Ch'ao-chou is a coastal area of Southeast China on the border of Kwangtung and Fukien provinces.⁽⁴⁾ Throughout Southeast Asia people of Ch'ao-chou origin have traditionally been involved in contraband trade, chiefly gold and narcotics. They are also prominent in the banking field. Ch'ao-chou communities in different countries thus have financial and dialect group associations that facilitate smuggling activities. A smuggling system employing exclusively Ch'ao-chou people is a closed, highly disciplined system. The system that delivers raw opium and morphine base to Hong Kong is run almost exclusively by Ch'ao-chou people. Its chief vulnerability is that it must employ non-Chinese as couriers and as trawler captains. Police information on the system is obtained almost entirely from non-Chinese employees.

4. Ch'ao-chou is the romanization of the mandarin pronunciation. Other names for Ch'ao-chou are Swatow (the principal port city in the region), Chiu Chau (the Cantonese rendition) and Teochiu (romanization of Ch'ao-chou in the local dialect).

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26. The narcotics traffickers identified in Bangkok perform a variety of functions. The most visible ones are heroin brokers and agents who try to line up non-Chinese couriers to deliver narcotics to Vietnam, Hong Kong, and other markets. Several major organizations running trawler operations to Vietnam, Hong Kong, and Singapore are known to exist in Bangkok.

27. Although there are independent operators in Bangkok who arrange for their own sources of heroin supplies and make their own connections with international buyers, the smooth efficiency with which narcotics flow from Bangkok to various markets implies a good deal of organization. The meeting of the big heroin suppliers from Laos and Thailand in Bangkok in July 1971 to discuss development of markets is illustrative of the way the consortiums in the two countries coordinate their activities.

Hong Kong

28. Hong Kong is the third city in the Far East where international wholesale buyers go to buy heroin in bulk quantities.

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Hong Kong's total annual imports are estimated to be on the order of 120 tons of raw opium equivalent in a mixture of raw opium and morphine base. The morphine base alone, probably about 10-15 tons, would be enough to meet the bulk of the entire US annual heroin consumption.

29. Small quantities of morphine base have been smuggled by civil air passengers flying from Bangkok to Hong Kong. A minimum of 200 kilograms was shipped this way in 1970.

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Most heroin produced in Hong Kong is the Red Rock, or #3, variety, which is locally consumed. Sales of Hong Kong-refined #4 heroin to international traffickers are probably increasing but were probably less than half a ton in 1971. It takes one ton of Asian morphine base (50% morphine content) to produce half a ton of pure heroin.

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Distribution of Opium Products to Markets

32. In the Southeast Asian opium trade the purchasers, not the sellers, traditionally have taken the initiative in transactions. Chinese opium-smoking communities in Hong Kong, Macao, Vietnam, Singapore and Malaysia, and the Philippines consume most of the opium products exported from Southeast Asian producing areas. About 200 tons a year of the equivalent of raw opium are consumed in these traditional markets. Practically all is consumed illegally in smoking dens run by local Chinese vice syndicates. These syndicates determine the mix and quantity of opium products they want and then arrange with suppliers in Bangkok - source for all traditional markets - for delivery. It has been the suppliers' job to fill orders quickly, but otherwise they have played a passive marketing role.

33. The exploitation of the GI market in Vietnam illustrates the traditional roles of suppliers and distributors. As demand for #4 heroin by US servicemen grew in Vietnam, suppliers responded swiftly by making available ample quantities of #4 heroin for pick-up in Vientiane or Bangkok. Most of the heroin coming into Vietnam in 1970-71 moved through smuggling systems controlled by Sino-Vietnamese or Vietnamese groups or by independent operators. The supplying organizations, exercising their customary caution, did not attempt to manage the import and distribution of heroin inside the Vietnam market. This reluctance to get involved in marketing may be changing.

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34. Narcotics investigations in 1970 and 1971 indicate that all the pure heroin known to have moved from Bangkok and Hong Kong out of

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Southeast Asia was taken out by independent smugglers or by agents from the consuming markets. Okinawan citizens have been detected going to Hong Kong and Bangkok to buy heroin to distribute to American GIs in Okinawa.

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35. Chinese seamen occasionally have been caught trying to smuggle small quantities of heroin into the United States. Heroin has also been concealed in art objects shipped from Hong Kong to the United States. Ex-GIs from Vietnam who have settled in Bangkok have mailed substantial quantities of pure heroin to contacts in the United States. Some success has been achieved in efforts to eliminate their trafficking activities.

36. The evidence available from these investigations indicates that heroin suppliers in Hong Kong and Bangkok have not so far taken the initiative in developing US contacts. On the other hand, there is good evidence that they are acquisitive men who would like to make profitable connections in the US market. Their instinctive preference, however, is to wait and let the customer come to them.

Outlook

37. Southeast Asian heroin producers could become a serious factor in the US narcotics scene. Illicit opium is grown in Southeast Asia in quantities exceeding by several times the amounts consumed in the United States in the form of heroin. Refineries to convert opium to heroin exist both in producing areas (the Golden Triangle of Burma/Laos/Thailand) and in Hong Kong. The producers of heroin are Chinese syndicates, which proved to be remarkably sensitive to and responsive to growing market requirements in Vietnam in 1970 and 1971.

38. Even a major reduction in the production of raw opium might not significantly diminish Southeast Asian capabilities for supplying heroin to the United States. The US market for Southeast Asian opium in the form of heroin is potentially more profitable than the traditional Asian markets for opium in the form of smoking opium. If these syndicates had direct access to the US market in a situation where supplies of raw opium were tight, much of the smoking opium normally destined for Hong Kong

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and other Overseas Chinese communities could be diverted to meet the needs of the US market.

39. Increased pressures on smuggling routes within Southeast Asia would not necessarily have great effect on the potential for supplying the United States. The smugglers have ample scope for improving the efficiency of their present operations. For example, much of the opium in the trade now moves in a raw rather than prepared form. If the moisture were cooked out at collection centers in the Golden Triangle, the weight of the product to be smuggled to Bangkok, and then on to Hong Kong, Singapore, and other consuming centers, could be cut in half. Also, raw opium has a strong odor not present in the prepared product. Thus, reducing bulk and eliminating odor could facilitate smuggling. For another example, much of the opium and opium products smuggled out of Bangkok is now delivered by fishing trawler. This method is rather vulnerable, but it has been used for years and until recently has been safe and reliable. There is little doubt that opium merchants in Bangkok and their connections in Hong Kong and other consuming markets could devise ways of expanding amounts of contraband concealed in legal trade items. These methods are likely to be difficult to detect, given the open ports and free markets prevailing in most of Southeast Asia. Chinese opium merchants are talented movers of contraband, and they almost certainly will demonstrate their skill in evading repressive measures aimed at their activities.

40. The potentially large suppliers of heroin in Southeast Asia have their vulnerabilities, however. They consider themselves businessmen and try to avoid taking risks. For them, avoiding risks means that they avoid dealing directly with non-Chinese, whom they have found to be unreliable business partners in clandestine undertakings.

41. Even occasional arrests and convictions of Chinese heroin brokers and dealers in Southeast Asia are likely to keep them off balance and heighten their native sense of caution. In this connection, the deportation early in 1971 from Hong Kong to New York of trafficker Lee Ben Joe, a wealthy Chinese businessman in the Philippines, probably served a useful deterrent purpose. This was the first case in history in which a narcotics criminal was deported from Southeast Asia to the United States for prosecution. The arrest in Bangkok of heroin broker Preecha Leeyarug, a Sino-Thai, in October 1971 was also salutary in this regard. Before his arrest it was widely believed in Bangkok that Thai authorities, who have always been lenient with narcotics dealers, would not move against him, even though he had been caught openly selling pure heroin in bulk quantities to US citizens.

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42. If demand for heroin in the United States remains strong and if European sources are reduced by control measures, the marketing syndicates in the United States will have to turn elsewhere. Southeast Asia has more potential for supplying heroin than any other region in the world. The ethnic differences of the Chinese suppliers and American buyers make it hard for them to get together. The Chinese, in particular, are suspicious of outsiders and, in the past, have operated most effectively when dealing with their own people. While there are possibilities for establishing less direct connections - e.g., through Latin America or Europe - even more intermediaries would be involved, thus increasing the vulnerability and diluting the profits of the system. If good international coordination of surveillance of heroin traffickers who operate between Asia and the United States leads to the arrest and conviction of some of the important Chinese brokers, there may be reasonably good prospects for limiting the heroin flow to the United States from Southeast Asia.

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APPENDIX A**Problem with Names of Chinese Narcotics Traffickers**

Names of dozens of important Chinese narcotics dealers and traffickers have been identified in the course of investigations conducted by US narcotics and customs agents in the Far East in 1970 and 1971. These investigations have been carried out in cooperation with local police in the principal trafficking centers - mainly Bangkok, Saigon, and Hong Kong. The names of traffickers [] are given in the romanization provided in investigative reports; in most cases the names used here originated with the police of the country involved. Most Thai Chinese have two names: a Chinese name usually rendered in a Ch'ao-chou dialect version, and a Thai name, which only faintly resembles the Chinese name. Thai police may report names in either version. In Vietnam, the police consistently report Chinese names in a Vietnamese version. Names of traffickers in Hong Kong generally will be reported in a Cantonese romanization.

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The only way to reduce this confusion is to identify names by characters, which could then be rendered in Chinese Standard Telegraphic Code (STC) numbers. Use of STC codes to identify Chinese names in narcotics investigative reports is increasing but is not yet universal.

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